



BUDGET MONITORING REPORT

For the period from January 1 through June 30, 2013

Economic Performance

This report presents revenues and expenditures for the General Fund, General Capital Investment Program Fund, Development Services Fund and the Utilities Operating and CIP Funds.

The purpose of the report is to compare actual expenditures and revenues and year-end projections to the 2013-2014 adopted budget, to discuss reasons for variance and to convey the local and national economic outlook.

Budget Office continues to closely monitor expenditures and revenues as the economy recovers.

Performance at a Glance

	YTD
Pg 3 General Fund Q2 Revenue Projection vs General Fund Q2 Expenditure Projection	+
Pg 4 Revenue Performance as Compared to Forecast	+
Pg 5 General CIP Expenditures & Resources vs Adopted Budget	+
Pg 6 Development Services Q2 Expenditure Projection vs Q2 Revenue Projection	+
Pg 7 Utilities Expenditures & Resources vs Adopted Budget	+

Compared to seasonal trends:

+ = Positive variance or negative variance < 1%.

0 = Negative variance of 1-4%.

- = Negative variance of > 4% .

U.S. Economy

The national economy continues to recover slowly from the "Great Recession". While economic conditions are improving, they are improving at a slower pace than previous recessions. The health of our economy is based on the soundness of our financial system as well as individuals' perceived ability to afford goods and services. At the national level, the debate over the debt ceiling in 2011 and the subsequent "Sequestration" in March 2013 suppressed the nation's confidence in the economy. Coinciding with the sequestration was the expiration of payroll tax cuts which has adversely affected personal income growth. External factors that have continued to hamper our economic recovery are slowing economic growth in China and the unresolved issue of the Sovereign Debt Crisis in Europe.

In the last 12 months unemployment has declined from 8.2% to 7.6% (US Bureau of Labor Statistics). This is a positive trend and most economists are predicting it to continue at a slow and steady pace. Second quarter unemployment remained at 7.6%, again noting a small stabilization of the national economy.

Gross Domestic Product for the last 12 months has grown at a real rate of 1.6% year over year. Since 1970, the average real growth rate for GDP has been 2.8%. The average GDP real growth rate excluding recessions since 1970 is 3.6% (Puget Sound Economic Forecaster, March 2013).

Regional Economy

The Washington economy continues to recover faster than the nation as a whole, with the preliminary unemployment rate at 6.8% down from 8.4% a year ago (Bureau of Labor Statistics). The reason for this faster recovery is due to the well-diversified economy that exists throughout the state as well as some very strong companies that operate within the state. Washington's personal income growth is also out-pacing the nation with first quarter personal income growing at an annual rate of 3.6%, while the nation only grew by 2.8% (Bureau of Economic Analysis).

The Puget Sound Region has long been the economic dynamo for the state and its economic recovery is out-pacing the nation and the state. Unemployment in the Seattle-Tacoma-Bellevue metropolitan statistical area currently sits at 5.2%, down from 7.2% a year ago (Bureau of Labor Statistics). This is due to the growing high tech industry and large companies like Boeing and Amazon that have continued to have exceptional business growth despite tough economic conditions.

Bellevue Economy

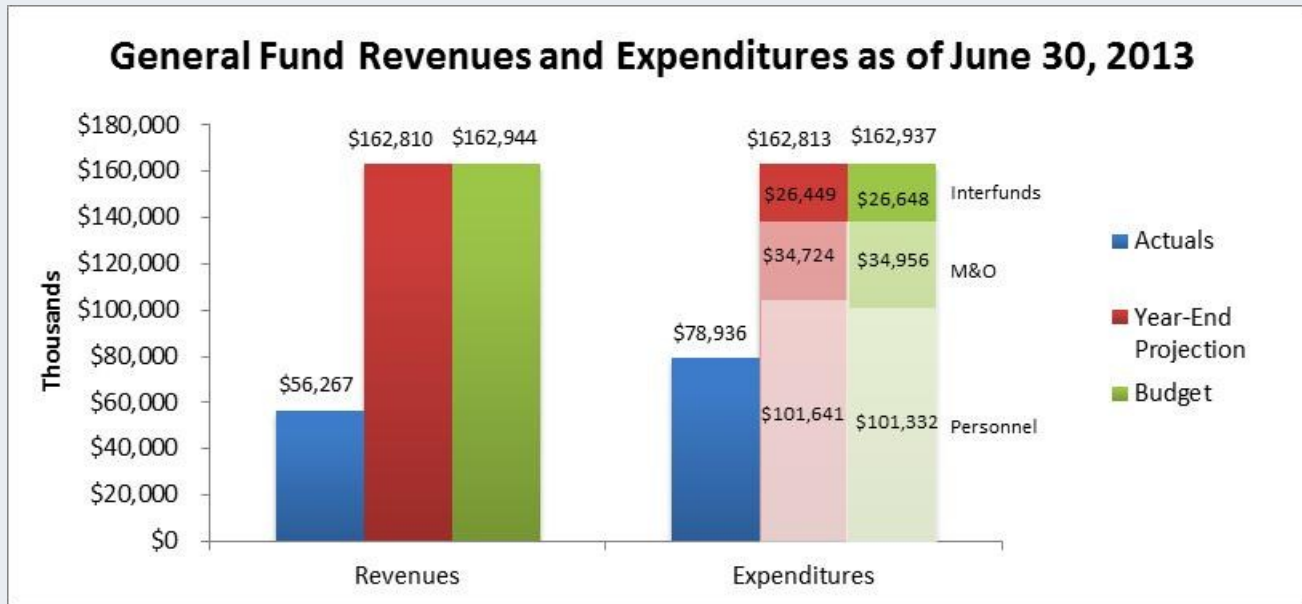
Bellevue is largely matching the region in economic performance. The City of Bellevue unemployment rate has dropped from 5.5% to 3.7% from April 2012 to April 2013 (Bureau of Labor Statistics). The long, lagging recovery of the construction industry appears to be in its early stages with a handful of developers planning major construction projects such as the Bellevue Square expansion and the Bellevue Center Office building. This construction surge can largely be attributed to the rapid absorption of office space in the central business district. In addition, there are two major projects currently under construction: Soma Tower Phase 1 and the Marriot Hotel. It was also recently announced that Booking.com was opening an office in the Eastgate area to house between 350-500 customer service employees.

Puget Sound Annual Percent Change			
	<u>2011</u> <u>Actual</u>	<u>2012</u> <u>Actual</u>	<u>2013</u> <u>Projected</u>
% Change in Employment	1.7%	2.5%	3.1%
% Change in Personal Income	5.3%	4.4%	4.8%
% Change in Housing Permits	10.5%	49.6%	31.4%
% Change in Average Home Price	(9.6)%	3.5%	3.8%
% Change in Taxable Retail Sales	2.5%	6.2%	6.0%
* Source: Puget Sound Economic Forecaster—June 2013			

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GENERAL FUND PERFORMANCE



NOTE: The above graph illustrates the difference between year-to-date revenue collections and expenditures through June, current year-end estimates, and adopted budget. Due to the time lag between earning and receiving some major taxes, year-to-date actuals are less than actual second quarter activities. Expenditures are based on actual activities performed during the second quarter.

Revenue

Year-end expenditure projections are forecasted to come within 0.1% of estimated revenue at year-end.

Revenues are tracking slightly below budget primarily due to reduced electric utility tax revenues. Sales tax is projected to be slightly above budget and Business & Occupation tax is tracking closely to budget.

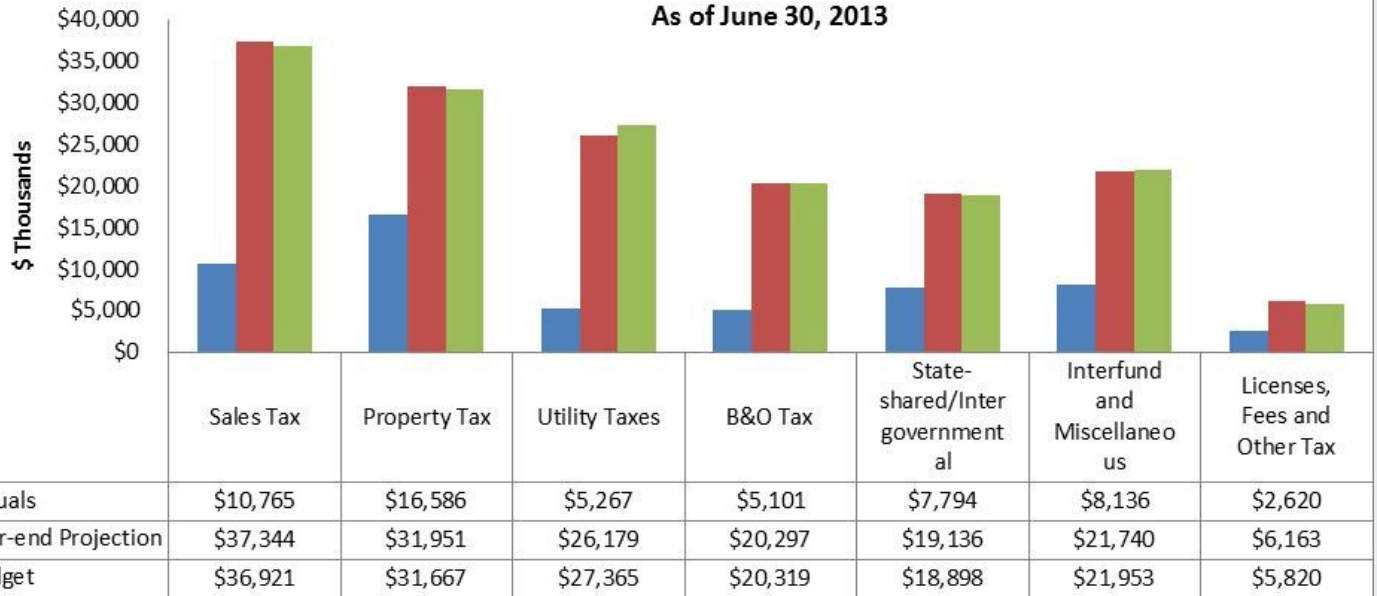
Expenditures

Expenditure projections are tracking closely to budget. The slight overages projected in personnel which are due one time retirement and transition costs which are offset by maintenance and operations (M&O).

GENERAL FUND PERFORMANCE

General Fund Revenue

As of June 30, 2013



NOTE: The above graph illustrates the difference between year-to-date collections through June, current year-end estimates, and adopted budget. Due to the time lag between earning and receiving some major tax collections, year-to-date actuals are less than actual second quarter activities. Additionally, year-end projections are based on the limited information available to date. Projections, which are based on economic trends and projections as well as historical collections, will be updated as more information becomes available.

Tax Revenues

Sales Tax and B&O Tax:

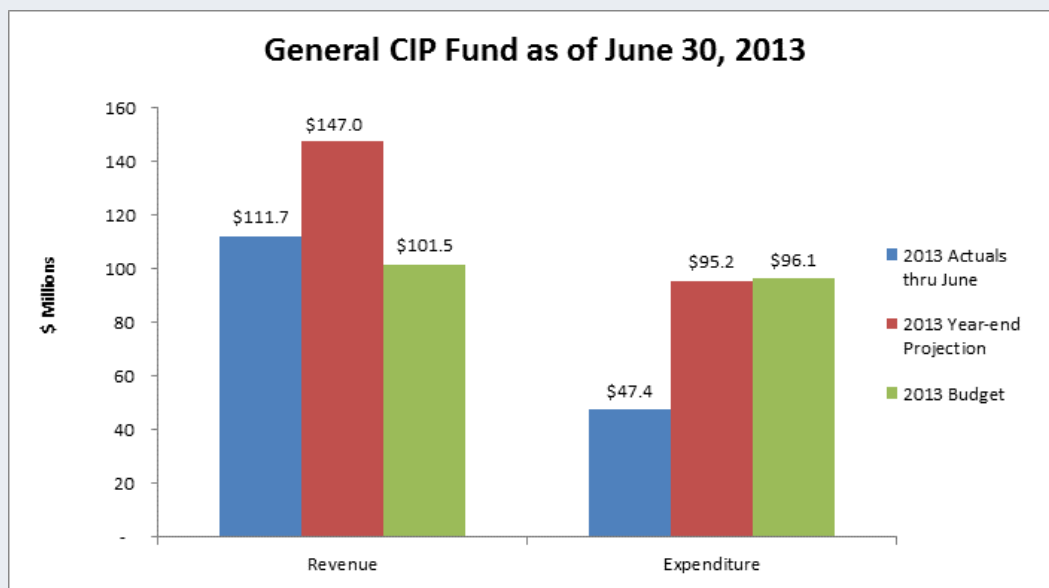
Year to date sales tax is within 1% of forecast. Month to month collections are highly volatile with the first three months coming in stronger than expected and the last two months weaker than expected. Sectors that have been leading the year have been construction, which is up 13% year to date and professional services which is up 26%.

Business and Occupation tax year to date projections are also coming with less than 1% variance from forecast.

Utility Taxes:

Utility taxes have been trending down since the beginning of 2012. While City of Bellevue utility tax, water, sewer and storm water utility taxes are on budget, the non-City utility taxes are not performing at budget. Causes of the non-City utility taxes problems are weather patterns and a reduction in baseline demand. The last two years' relatively mild winters and increasing energy efficiency have worked to suppress these utility taxes. Telephone and cell phone utility taxes are trending down due to fewer land lines and wireless carriers changing their fee structure to more data plans and fewer voice plans. Wireless data plans are not taxable while voice plans are, which causes an overall reduction in utility tax collections.

GENERAL CIP PERFORMANCE



NOTE: The above graph illustrates the difference between year-to-date resource collections and expenditures through June, current year-end estimates, and adopted budget. Due to the time lag between earning and receiving some major tax collections, year-to-date actuals are less than actual second quarter activities. Expenditures are based on actual activities performed during the second quarter.

Resources

Bonds

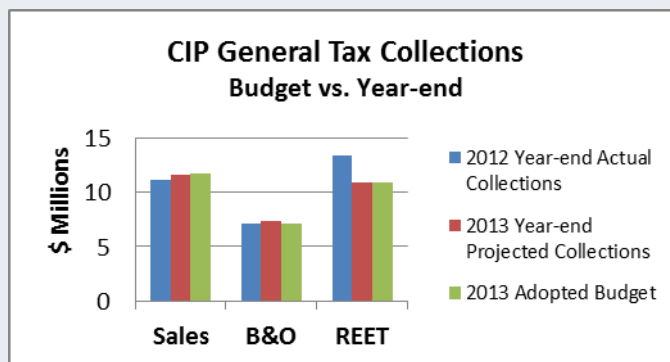
Total revenues are projected to be \$45.5 million (45%) over budget for 2013, due to the receipt of LTGO bond proceeds in one year in advance of budget. The 2013-2014 Budget assumed that LTGO bonds would be issued in 2 pieces, yet due to the favorable bond climate, the full amount of bonds were issued in 2013 creating a revenue picture for 2013 that is over budget.

General Taxes

Sales tax and B&O tax are performing close to budget. Regarding REET, the volume of high-value real estate transactions has decreased when compared to 2012, but REET collections are projected to be in line with the 2013 budget for year-end.

Other Revenues

Intergovernmental revenues (i.e., grants and contributions from other jurisdictions) are projected to be under budget by roughly \$6 million (43%), which includes the loss of the Public Works Trust Fund revenue from the State of Washington.



Expenditures

CIP expenditures are projected to be \$95.2 million at year-end, or 99% of budget. This estimate is higher than the long-term historical average, due primarily to large scale construction projects getting underway (e.g., Bellevue Botanical Gardens, East Link) and the acceleration of other project expenditures.

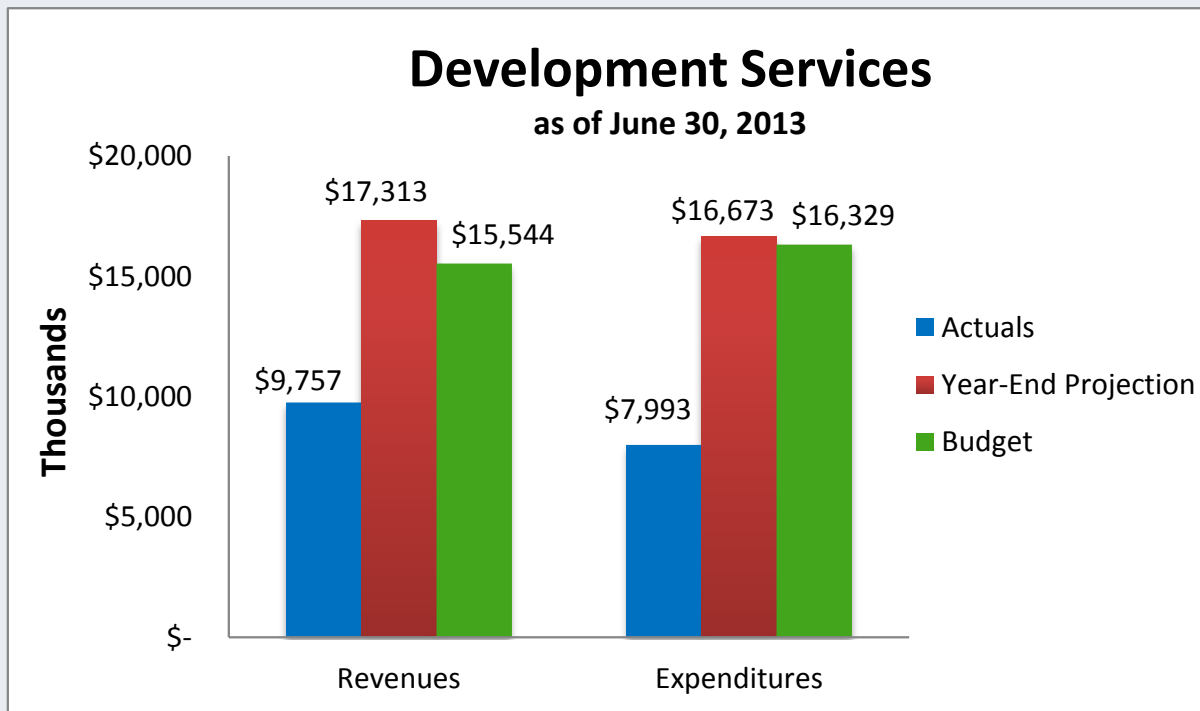
Line of Credit (LOC)

The Line of Credit (LOC) was paid off and closed in the second quarter of 2013.

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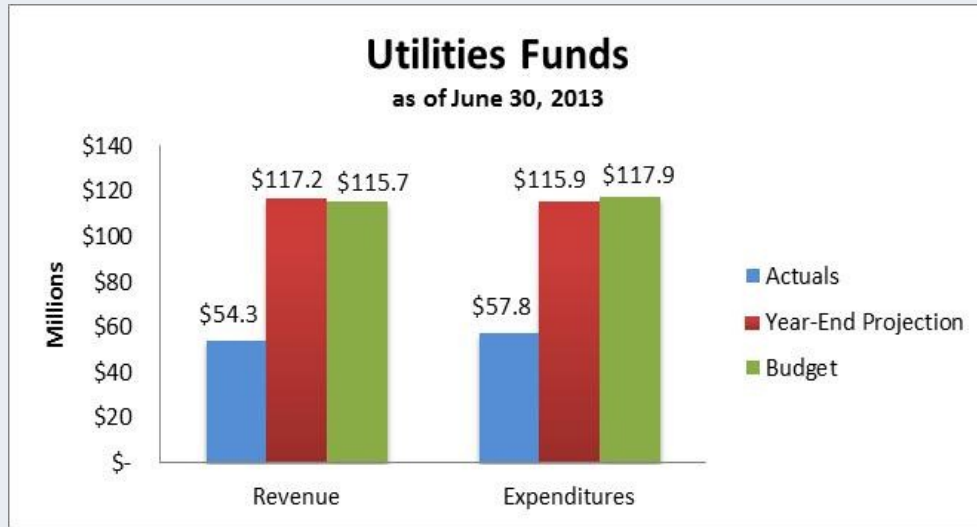
DEVELOPMENT SERVICES PERFORMANCE



Development Services revenue collections are above anticipated levels in Q2, largely due to applications for major projects. Economic growth continues to improve as permit applications are increasing in valuation size and scope. Permit applications are 17% higher than this time last year and the trend is anticipated to continue

through year end. Development Services expenditure projections reflect cost increases for additional staff necessary to meet the workload demand. Additional development fee revenue is anticipated to cover expenditures. Second quarter actuals reflect a correction to first quarter actuals.

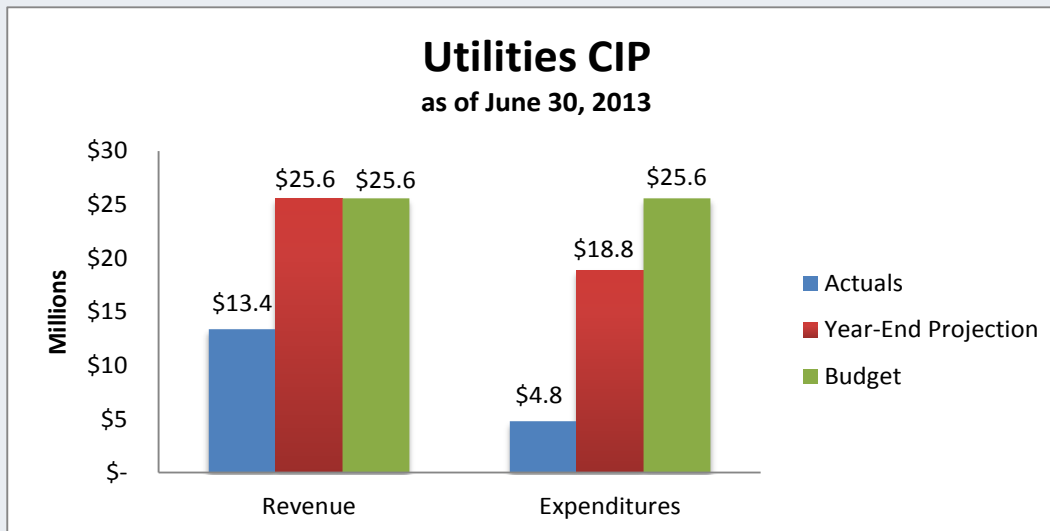
UTILITIES PERFORMANCE



Utility revenues are projected to be above budget by about \$1.5 million due primarily to water and wastewater service revenues exceeding expectations. Expenditures are expected to be under

budget by about \$2.0 million due primarily to delayed capital equipment purchases which will need to be made in 2014 and staff vacancies.

UTILITIES CIP



Utility revenues are projected to be at budget by year end (the budget above is presented net of reserves). Expenditures are expected to be under budget by about \$6.8 million due primarily to delays to accommodate coordination with other projects and to consolidate projects to attract more favorable bid pricing, but partially

offset by the acceleration of other projects. The majority of the variance between projected revenue and expenditures will need to be carried forward to cover projects which have been delayed into 2014.

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